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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

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AZ Corporation Commission
Director Of Utilities

IN THE MATTER OF THE PROPOSAL BY)
SOUTHWEST GAS CORPORATION FOR A)
CONTINUATION OF THE ENERGY)
ADVANTAGE PLUS PROGRAM)

DOCKET NO. G-01551A-05-0249

DECISION NO. 67878

ORDER

Open Meeting
May 24 and May 25, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Procedural History

1. On April 11, 2005, Southwest Gas Corporation ("Southwest Gas" or "Southwest" or "the Company") submitted a proposal for a continuation and modification of the Energy Advantage Plus ("EAP") program.

Background

2. The Utilities Division of the Arizona Corporation Commission first approved the Energy Advantage Plus demand side management ("DSM") program proposed by Southwest Gas in 1996. The Commission approved a DSM adjustor mechanism in Decision No. 60352 which provides Southwest with a means to recover the costs associated with pre-approved DSM programs.

3. Most recently, the EAP program was approved through the end of 2004 at an annual funding level of \$900,000. Funding for the EAP program expired on December 31, 2004, and Southwest Gas is requesting to modify the program and to reduce the annual funding level to \$250,000.

4. Southwest Gas is requesting a three-year approval time frame for the EAP program, subject to the Commission decision in Southwest's current general rate case.

Southwest Gas' Proposal for Continuation and Modification of the EAP

5. The Energy Advantage Plus program was intended to upgrade the energy efficiency of new single-family housing and in so doing, transform the housing construction market in Tucson. The EAP program requires builders to achieve a minimum of 15% energy performance over standard building codes. Builders can choose from a number of improvement measures including more efficient windows, air distribution system improvements, upgraded insulation, or energy efficient appliances. Until the funding expired on December 31, 2004, Southwest Gas provided cooperative advertising, builder incentives, design plan reviews, and home inspections to participating builders.

6. Southwest Gas' proposal states that the EAP program has been well received by builders in the Tucson area and has been very successful in upgrading the energy efficiency of residential new construction. Southwest also believes that the program is helping to transform the new home construction market in Southern Arizona.

7. The Company believes that the builder incentives and cooperative advertising are no longer necessary to maintain the success of the EAP program. As a result, Southwest Gas is requesting to modify the EAP program to emphasize home inspections to verify that builders continue to meet the EAP program efficiency standards. Southwest has proposed to reduce the annual funding level from \$900,000 to \$250,000. The Company anticipates minimal change in builder participation as a result of its proposed modifications.

8. The Company's proposed limited EAP program consists of design plan reviews and more extensive home inspections that include blower door testing. The modified program goals

1 include the following: "(1) provide assurance and objective evidence that Tucson builders are
2 continuing to meet, at a minimum, the efficiency standards set for the EAP program in previous
3 years; and (2) provide highly valued design assistance, quality assurance, testing, and verification
4 services (including blower door testing) to the building community, in order to assist builders in
5 managing the overall quality of their business services."¹

6 9. Southwest Gas estimates that its proposed program budget will allow it to provide
7 verification services for about 900 new homes or 14 percent of the 6,400 new homes expected to
8 be built to EAP specifications in 2005. Verification and inspection services will vary by home, but
9 Southwest estimates that each home verification will cost in the range of \$160 to \$340, take 2.75
10 to 4.5 hours to complete, and include one or more of the following services: visual inspection; duct
11 test; dust test split system; and blower door test. The software-based design plan review services
12 will be available to participating builders for all EAP homes.

13 10. Finally, Southwest Gas has requested that the Commission adjust its DSM adjustor
14 mechanism ("DSMAM") to reflect the change in approved budget for the EAP program. In March
15 2005, the DSMAM was adjusted to reflect total DSM program expenditures of \$450,000 equal to
16 \$350,000 for the Low-Income Energy Conservation ("LIEC") program and a placeholder value of
17 \$100,000 for the yet-to-be-approved modified EAP program. The March 2005 adjustment resulted
18 in a DSMAM credit equal to \$0.00054 per therm. Southwest is currently requesting that the
19 Commission adjust its DSMAM to reflect total DSM program expenditures of \$600,000 equal to
20 \$350,000 for the LIEC program and \$250,000 for the EAP program. "This adjustment will result
21 in a DSMAM credit equal to \$0.00003 per therm. This proposed credit would remain in place
22 until the next adjustment period (approximately April 2006), or until further order of the
23 Commission, potentially at the conclusion of Southwest's current Arizona general rate case.
24 Southwest Gas proposes that the revised DSMAM credit be effective at the time of its monthly gas
25 cost change for June 2005, which is required to be effective May, 29, 2005."²

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28 ¹ Southwest Gas Corporation's Energy Advantage Plus 2005 Program Proposal. Page 2. April 6, 2005.

² Southwest Gas' Response to Staff's First Set of Data Requests: EEC-10.

Staff Analysis and Recommendation

11. Southwest Gas' proposal to modify its existing EAP program seeks to discontinue builder incentives and joint advertising. Southwest does not anticipate a reduction in program participation. As such, this well-established program will deliver the same consistent benefits at a reduced cost. The Company has provided data in support of its cost-effectiveness analysis which shows that the benefits of the EAP program significantly outweigh the costs. In approving the EAP program through December 2004, Staff previously found this program to be cost-effective. Southwest Gas does not anticipate any reduction in energy savings resulting from the modified EAP program. Staff finds that Southwest's proposed modified program will continue to be cost-effective.

12. Staff finds that the EAP program has been successful to date in helping to increase the energy efficiency of the new home construction market in Southern Arizona. Staff finds that Southwest Gas' modified EAP program which focuses on home inspection and verification will continue to benefit Arizona builders and consumers by ensuring that EAP homes are actually delivering energy efficiency improvements. Staff recommends that the Commission approve Southwest Gas' modified EAP program at an annual funding level of \$250,000 for a period of two years through July, 1 2007. Staff also recognizes that any decision issued in the Company's pending rate case (Docket No. G-01551A-04-0876) would supersede any pre-approval granted herein.

13. Southwest has requested that the Commission reset its DSMAM credit to \$0.00003 per therm effective May 29, 2005. If the Commission approves Southwest Gas' modified EAP program at an annual spending level of \$250,000, the total DSM expenditures will increase by \$150,000 over the amount included in the March 2005 DSMAM adjustment in which \$100,000 was included for EAP program expenditures. Currently, Southwest Gas' DSM adjuster mechanism is reset annually based on a January filing by Southwest Gas. Staff finds that the difference is minimal and does not find that an additional adjustment is necessary. The program expenditures will be captured in the next annual surcharge adjustment. Staff recommends that the

Commission deny Southwest Gas' request to reset its DSMAM credit and require the Company to maintain the current DSMAM credit of \$0.00054 per therm.

Conclusion

14. Staff finds that the proposed modifications to Southwest Gas' EAP program will maintain the program's success in upgrading the energy efficiency of new residential construction in Southern Arizona. Staff finds that the modified program will continue to be cost-effective. Staff finds that Southwest Gas' request to adjust its DSMAM credit from \$0.00054 to \$0.00003 per therm effective May 29, 2005 is not necessary given the de minimus amount of the proposed adjustment.

15. Staff recommends that the Commission approve Southwest Gas' proposal to modify its EAP program to focus on design plan review services and home inspection and verification services through July 1, 2007. Staff also recommends that any decision issued in the Company's pending rate case (Docket No. G-01551A-04-0876) would supersede any pre-approval granted herein.

16. Staff recommends that the Commission approve an annual funding level of \$250,000 for the EAP program.

17. Finally, Staff recommends that the Commission deny Southwest Gas' request to reset its DSMAM credit and require the Company to maintain the current DSMAM credit of \$0.00054 per therm.

CONCLUSIONS OF LAW

1. Southwest Gas Corporation is an Arizona public service corporation within the meaning of Article XV, Section 2, or the Arizona Constitution.

2. The Commission has jurisdiction over Southwest Gas Corporation and over the subject matter of the application.

3. The Commission, having reviewed the Application docketed on April 11, 2005, and Staff's Memorandum dated May 10, 2005, concludes that it is the public interest to approve the filing subject to the recommendations set forth in Findings of Fact Nos. 15, 16, and 17.

ORDER

IT IS THEREFORE ORDERED that the proposal by Southwest Gas Corporation for a continuation and modification of its Energy Advantage Plus program be approved at an annual funding level of \$250,000.

IT IS FURTHER ORDERED that the Energy Advantage Plus program be pre-approved through July 1, 2007, or until further order of the Commission, whichever comes first.

IT IS FURTHER ORDERED that Southwest Gas Corporation's request that the DSMAM be adjusted effective May 29, 2005, is denied.

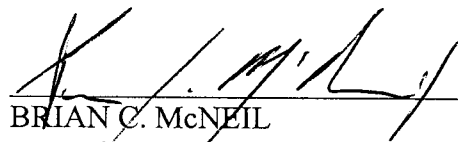
IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

  
CHAIRMAN COMMISSIONER COMMISSIONER

 
COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 1st day of June, 2005.


BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:EEC:lhmvJMA

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